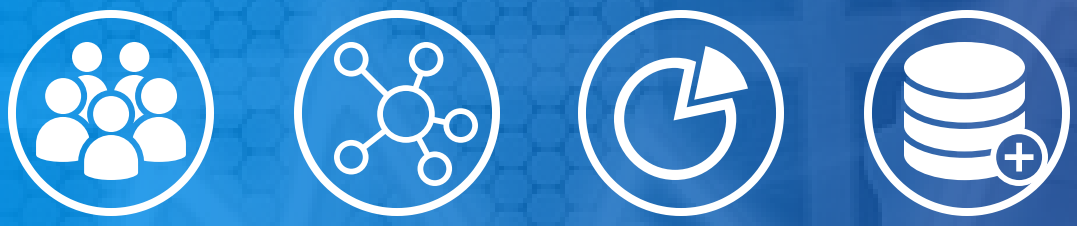
Will My True Customer Please Stand Up?

The Journey to Understanding Your Insurance Customers



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Executive Summary

Companies are now recognizing that customer service, communication and personalization – the key tenets of any customer experience – are the major components to profitability and growth. So, what does it mean for an insurance carrier to be customer-centric today?

The ability to quickly and efficiently respond to customer needs? To understand who their customers are and which products they require? To know which customers are profitable – and which ones are not? Or how best to communicate and build better relationships with their customers?

All of these questions are but pieces of the much larger 360-degree customer view. And getting to that perspective has been challenging – and somewhat elusive. But two things are changing that – the rise of technology and the increased availability – and use of -- data.

This paper attempts to map out a more efficient customer journey for insurance carriers. Yes, it points out some of the gaps and hurdles of better understanding your customer. But it also helps to shine a spotlight on critical steps and activities that can help drive customer knowledge, increase customer satisfaction and grow profitable relationships.

The Quest to Understand Your Customers

The on-going pursuit by insurance carriers to achieve profitable growth continues to be an up-hill battle as the opportunities for growth become more and more competitive and challenging. In the US, UK and EU, the market is saturated and mature. In other parts of the world, markets can be more difficult to penetrate because the economic, business and regulatory climates are complex, fluid and everchanging.

Insurers are being forced to face new trends that impact the way they engage with their customers. These trends involve digital, technological and social changes – trends that continue to impact an organization's ability to compete and survive in today's competitive marketplace.

Some of these trends include:

Changing Demographics

Consumers have become accustomed to a personal, relevant and seamless experience in their business transactions. They expect -- if not demand -- easy and quick access to information and high-quality service.

Consumers overall are much more tech-savvy. They look to engage with companies anywhere, any time, and on any device. In the not-too-distant-past, consumers shopped for insurance **primarily** through a third-party (an agent or broker) that helped to guide them through the complexities of an insurance purchase. While many still interact with their insurance provider or advisor, more and more are buying insurance directly on their own.

Shifting demographics are causing greater disruption around the globe as greater numbers of people have begun to move into cities or along coastal areas, sharing living arrangements, or renting housing. (The COVID-19 pandemic may have slowed this trend, but expectations are that it will continue unabated). This changes transportation trends as fewer consumers are buying cars and using bicycles or public transportation to get to their destination. And with emphasis on healthy lifestyles and greater access to medical advances, people are now living longer. All of these changes require insurance carriers to evaluate their products, their services and how they conduct their business.

Advances in Technology

Easier access to information and shared input from social media channels have empowered customers and prospects to research and compare insurance companies, contracts, prices, and services. They can better understand and evaluate the insurance policies they are purchasing, as well as the companies that are selling them.

Use of mobile technologies (both phones and tablets) continues to grow exponentially. Consider the fact that the use of mobile phones was projected to exceed 16 billion worldwide this year alone (in 2020), an increase of over 8% from 2019. ***(1)***

Increased use of Business Intelligence (BI)/Analytics as well as the introduction of Artificial Intelligence (AI) and Machine Learning (ML) are making it possible to enhance key components of the insurance process model. Insurers' use of technologies like telematics, usage- based insurance (UBI), the Internet of Things (IoT) and the cloud are dramatically affecting the insurance value chain from product development to claims adjudication to a carrier's corporate functions.

In effect, consumers are in the "driver's seat" – they have control of their relationships with insurance providers and the freedom to switch carriers with a click of a mouse.

Consider the following statistics:

- As of March 2019, there were 4,383 million internet users, which accounts for 56.8% of the world's population (*Source: Internet World Stats)*
- $80 billion has been invested in autonomous vehicle technology over the past three years (*Source: Driverless Media)*
- It has been estimated that by 2025, telematics will encompass up to 30% of the automobile market *(Source: A.T. Kearney)*
- By 2025, more than 80% of organizations are predicted to have migrated to the cloud, hosting and co-location services (*Source: Computerwold UK).*
- Estimates are that by 2025, half of all US households will be "connected" via integrated IoT-enabled monitoring and control solutions
- IoT revenue is expected to reach $3 trillion by 2025 (*Source: Aria Systems)*
- By 2021, AI augmentation is forecast to bring in $2.9 trillion in business value and free up 6.2 billion hours of worker productivity *(Source: Attunity)*
- There are now 1.35 million tech startups globally (*Source: Get2Growth)*

The on-going use of sensor gathering information by way of IoT has added to a company's ability to enhance its customer information. It is estimated there will be 21.5 billion IoT devices by the year 2025 ***(2);*** devices ranging from smart phones to washing machines (devices equipped with chips to gather and communicate data over a network). A look at how some of these "data collecting" devices are being used today is outlined below.

The Connected Car

Telematics and usage-based insurance is having a major impact on auto risk assessment and pricing. Many newer vehicles now have the power of 20 personal computers and can process up to 25 gigabytes of data an hour. ***(3)*** It is estimated that by 2025, telematics will encompass up to 30% of the automobile insurance market. In addition, technological features such as advanced driver-assisted systems, semi-autonomous or autonomous vehicle technologies, and technologies for recovering stolen vehicles will be integrated into half of the cars on the road**.** ***(4)***

These advances in automobile technologies have already begun to impact the frequency and severity of accidents via loss reduction, which in turn impacts premiums. Experts point out, however, that these advantages are commensurate with the telematics adoption rate. Today, telematics adoption rates hover around 20% in the U.S.; and the UBI adoption rate is more dismal at just 6% today**.** ***(5)***

The Connected Home

Estimates developed by A.T. Kearney indicate that by 2025, half of all US households will be "connected' via integrated IoT-enabled monitoring and control solutions. Smart devices such as home security cameras and alarms, heater and furnace sensors, and water sensors can provide

immediate warnings of pending accidents to the homeowner thereby allowing claims to be avoided.

Data collected from these sensors can also provide information to insurance carriers for risk evaluation purposes.

The Connected Self

Wearable devices that report on a wearer's physical or emotional health have been growing in popularity. These devices are being used to monitor an individual's health status and lifestyle habits by both life and health carriers. Consumers can now record how many steps they've taken, monitor their pulse, check blood oxygen levels, and track sleeping habits much more easily.

One insurer, John Hancock, sought to obtain data from policyholders who agreed to wear activity "trackers". There is much debate over the use of "wearables", but this growing technology is being used for gathering information about individual lifestyles and behavior.

The Advent of Data Proliferation

These new advances in technology have had a corresponding effect on the amount of data now available to insurance companies. The deployment of these sensors and devices will generate a wealth of data, leading to better decision making by insurers.

With the advent of Big Data, insurance carriers are ingesting more data than they are (currently) able to use or even know how to use. The availability of data is daunting. It has been reported that 90% of the world's data has been generated in the last couple of years *(Source: Attunity).* And the data proliferation trend is increasing. The variability in this data is also overwhelming - unstructured text, photos, images, social media streams - they are all valuable sources of information. With the advent of cloud storage, insurance carriers are now able to better manage this significant wealth of data better than before.

The global cloud computing market size is expected to grow from $371.4 billion in 2020 to $832.1 billion by 2025 (Source: Global Newswire).

New Entrants/New Threats

An additional risk to insurers comes from new competitors in the insurance marketplace. Many of these potential competitors are customer-centric organizations like Amazon, Google and Walmart -- companies that have discussed very publicly about becoming a player in the insurance space. These customer-centric organizations have built rich, valuable customer knowledge bases. In turn, that knowledge has enabled them to create strong customer insights and relationships with simple but strong tech-enabled processes. Surveys have revealed that

insurance customers would be very willing to purchase insurance (personal lines) from one of these internet/digital savvy customer-centric organizations. ***(6)***

These new competitors place further pressure on insurers to move much more aggressively into the digital world in order to better respond to customer expectations.

An Insurance Company's Differentiator

Insurance market differentiation has historically involved the carrier's ability to excel in one of the following areas: price, product or service. In today's rapidly changing marketplace, a carrier's differentiator in any of these areas can be eliminated in a matter of months.

What can a carrier do to truly stand out?

The answer is the ability to use today's wealth of data to become more customer centric. It is the ability to "Know Thy Customer".

A recent survey of over 100 global insurance company CEOs by PWC revealed that the number one objective of these CEOs was to "get closer to their customers and to better understand their evolving needs." The key for accomplishing this objective was the ability to connect with customers in an intuitive, proactive and trusted manner***. (7)***

It should be noted, however, that what an insurer knows about their customer is still focused on understanding an individual's risk factors rather than the customer and their needs.

In effect, it's the ability to move a marketing strategy from "pushing" products to all constituents to serving up personalized insurance products and services that are truly needed and wanted by the individual customer.

"Getting to Know Thy Customer"

What does it mean to better understand your customer and provide an excellent customer experience? There are three (3) levels in which insurers view their customers:

- ***Individual View:*** as a single policyholder where other internal data in NOT linked to this individual
- ***Account View:*** as a single policyholder but integrating all the internal data with this policyholder including policy, claims, billing, customer service, etc.
- ***360 Degree View:*** a view of the customer connecting internal and external data from many touch points understanding customer sentiment, behavior, social-economic stature, and where the individual is in his/her life journey.

In addition, it is helpful to view the customer over time. This includes:

- ***Understanding the Past:*** data that illustrates how the customer has interacted with the company and its products and services previously. It is also common practice for an insurer -- as part of its new business risk evaluation process -- to inspect an insured's loss history experience with a previous carrier.
- ***Understanding the Present:*** data that evaluates a customer's behavior patterns and highlights where the customer is in the buying cycle.
- ***The Future:*** past and present data that helps to "map" a potential future relationship and create a plan to address customer needs. This requires a carrier's ability to leverage data from various touchpoints (internal and external) to create a 360-degree view of the customer. This includes social and economic data, purchasing and life cycle behaviors, sentiment and/or attitude toward the company, payment preferences, and more.

There are two other numerical measures that a company should calculate to better understand its customer and the relationship the customer currently has with the company. These are understanding the "Customer's Lifetime Value" (LTV) and the "Cost of Acquisition" (CAC) for the customer.

- LTV is a measure that defines the total revenue a business can reasonably expect from a single customer account. It considers a customer's revenue value and factors in the predicted future relationship between the customer and the company. In other words, it projects the value of a customer to the company over the life span of the customer.
- CAC is a metric used to determine the amount of money the company has spent on acquiring the customer. These expenses include marketing, salaries, etc.

These two calculations are used together to identify the true "worth" of the customer, and to identify which customers possess the highest LTV to the company – and are most important to retain.

Benefits of Knowing Thy Customer

This type of information allows the insurance company to better address their customers' needs, to better understand which are the best target segments, and to identify when and how to engage the customer. Understanding a customer's needs and wants provides a host of benefits:

- ***Customer loyalty:*** With growing market competition and the insurance customers' increased propensity to switch insurers, carriers want – and need to -- earn brand loyalty. Loyal customers often become terrific advocates for the carrier – sharing their positive opinions with friends and followers while espousing the benefits of the company's customer service.
- ***Better Customer Retention:*** It's a long-accepted fact that keeping a customer is much more profitable than acquiring a new customer. In most cases, customers leave companies when they have had a disappointing experience, or their needs were not

met. Using data to detect the signals of potential defection and reacting accordingly is key to increasing a carrier's retention rate. This in turn, can have a significant benefit on a company's bottom line.

- ***Increased Wallet Share:*** Happy customers mean more business, expanding products and services from the company. Period.

So Why is Insurance Still Playing Catchup?

Insurance carriers have access to all the technologies and data sources that are needed to better understand their customers and provide a "valued" customer experience. So, what have been the main barriers keeping insurance carriers from advancing their digital transformation and becoming more customer-centric?

Gartner suggests that only a third of insurance companies have a complete account view of their customers. Forrester suggests that only 2% of insurers have a 360-degree view of their customer base and less than 10% of all companies understand how to use a 360-degree view for growth and profitability. In essence, very few carriers can answer basic business questions such as:

- Who are our most profitable customers (policyholder and distributors) and what are the characteristics of these profitable customers?
- What products best match our customer segments?
- Are our marketing programs and expenditures achieving any benefit, and for what customer segment(s)?
- Who should we be marketing to and what products or services would appeal to them?

There are a number of other transformational "inhibitors." These include:

Inhibitor #1: Legacy System Issues

Insurers continue to be hampered by legacy processing systems that are predominantly policy-centric systems -- not customer- or account-centric systems. These systems have been designed for specific products or lines of business, possess data that is stored in silos, and do not have the capability of viewing customers across all business lines. In many cases, these systems are not capable of sharing customer information. And these systems do not offer the granularity (of data) that companies need to understand their customers and/or undertake detailed customer analysis.

While insurers still strive to create a single, centralized data warehouse, a study undertaken by The Data Warehouse Institute (TDWI) indicated that companies from all industries possess on average five (5) customer management repositories. This includes data silos for marketing, sales, financial services, operations, and customer services -- all enabled by separate technology stacks, interfaces, timing and speed of delivery. ***(8)***

Inhibitor #2: Lack of Investment and Management Focus

It is no surprise that insurance companies have been slow in investing in critical advancements such as cloud computing, analytics, and big data. Concern is often raised around the cost of these technology solutions, as well as the ability to identify and articulate a return on these types of investments.

This is also true of carrier reluctance in paying for the talent and skills that are necessary to run these data-related solutions, systems and processes. ***(9)*** PWC's 17th Annual Insurance CEO Survey revealed that less than 40% of insurers have taken steps to upgrade talent, technology, data analytics and innovation capabilities to move their organizations into the digital economy. PWC's 2020 CEO insurance CEO survey indicated that 85% of these CEO's felt that their companies did not have the necessary technological capabilities to compete. ***(10)*** Lack of investment in data related technologies and skills has been the result of these factors:

- A risk-adverse culture
- The inability to show needed ROI for data-related projects and purchases
- The main insurance business driver of cost cutting/cost efficiency
- The industry's belief that data is the responsibility of IT. In reality, insurers need to view data as a corporate asset to be managed as such.

Inhibitor #3: Changing Business Models

In today's world of continuing transformation, insurers need to adjust from a reactive stance to a preventative business model. This includes the ability to set key priorities and action plans that are driven by cultural, organizational and strategic alignment.

Just as important is having a data strategy that aligns with the business strategy. With an enterprise data strategy, insurers are more likely to reap the benefits of information that is shared across the enterprise. It helps to eliminate so-called "one-off "data initiatives.

Inhibitor #4: Data, Of Course

The phrase "data is the new oil" continues to resonate in today's industry and now often gets upgraded to "data is the new water". Identified as one of the most valuable resources of the 21st Century, it is the catalyst for running today's businesses. But just as poor-quality data can be destructive to the business itself, bad oil can be damaging to an engine. And we all know what happens when we don't have access to clean water.

This critical area encompasses a number of key factors, including:

Poor Quality Data

Insurance companies have done a poor job of making sure the data it has is "fit for use". It is true that formal data quality programs already exist at many carriers. But Gartner places insurers at the bottom third of its Data Maturity Model. A Syncsort survey conducted in 2018

revealed that insurers see data governance, data management and data quality as their major challenge for moving the business ahead and complying with regulatory demands. ***(11)***

In addition, 65% of marketing executives indicated that poor data quality inhibits their marketing efforts. In effect, one can say that "bad data is killing companies from competing and providing the customer the service he/she expects. ***(12)***

A survey conducted with C-Level insurance executives by Agile Insurance Analytics and Pitney Bowes Insurance Insights found that less than 10% of companies possess a data strategy. Here are quotes from several C-Level insurance executives underscoring their frustration with poor data.

"We have invested millions of dollars into an enterprise data warehouse, but the contents are not trustworthy. I have no credibility on any of the information I get from it".

— CFO, $22 billion direct written premium global insurer

"I am unable to determine who our policyholders are. We are unable to obtain a single view of our customer. That lack of insight does not bode well for our ability to compete".

--CEO & President, $750 million direct written premium, regional insurance carrier

"We have had two predictive analytics projects underway for over two years and have not yet been able to implement either".

CIO, $1.4 billion net written premium super- regional carrier

Inhibitor #5: The Hunt for Talent

Acquiring talent has always been essential to successful execution of any business strategy. This is even more important for insurance carriers as more and more back office jobs like claims and customer service become automated.

With growing advances in technology, the need for specific technical skills will become more acute – especially for positions such as actuaries, data modelers and data architects, risk managers, data scientists and data analysts. One key strategy is the need to identify which functions should be retained internally and what functions are bettered outsourced externally.

Eighty-six percent of insurance CEO's in the PWC CEO survey stated that their organizations needed to address this issue and strengthen the digital skills within their organization. ***(13)***

Areas of Opportunity for Carriers

Technology Improvements have been beneficial when it comes to handling, cleansing, migration/integration, and the storing of data. What is not as impressive is the ability of most insurers to manage, analyze and apply data to real business challenges. They often cannot

support the new, unstructured sources of data available. Both legacy and new core processing systems possess and use different data models, data definitions and data formats.

Data Management Tools and Processes

An initial area of opportunity for carriers to obtain better control, management and use of its data is to put into place the proper data management, data governance and data quality foundations. Most carriers have yet to implement these needed data management building blocks that can minimize data problems and attain the elusive "one-version" of the truth (and a single view of its customer).

These necessary data management/data governance foundation pieces include:

- A Data Governance Committee and process
- Formal Data Strategy
- Enterprise Business Glossary/Data Dictionary
- Metadata Repository
- Data Quality Program
- MDM tools and processes

External Data/Big Data/Data Sharing

Another area of opportunity for insurers is the use of external data. Outside of the traditional third-party data used by insurers to do risk assessment or traditional claims adjudication, insurance companies have not captured nearly enough external data -- even when that data is public or free (such as census data and economic type data). Most carriers are missing a plethora of non-traditional third-party data, both structured data and unstructured data, as part of their toolkit.

Most organizations believe that using third-party data and big data will benefit their underwriting profitability and claims efficiency, while improving cost savings. They also believe the use of external data would increase their ability to gain deeper insight into their customer base and better understand customer needs and preferences. They see third-party and big data as an absolute "must" to be competitive going forward. ***(14)***

This particular survey also highlighted a number of issues inhibiting carrier use of third-party data. These include:

- Limited or no means to determine the value that can be achieved by the third-party data they use. More specifically, they had no means to measure the impact of third-party data to their organization.
- The amount of time and cost of interfacing the third-party data source with the company's infrastructure. Companies reported that this effort would require a six to nine-month timeframe to build the interface between the third-party source and the company's internal systems.

- No formal search process was in place for identifying third-party data and no plan existed on where and how to use third-party data.

In contrast, there were several good examples of insurance companies' purchasing data. These included:

- Insurance carriers who write commercial trucking insurance commonly purchase data from data aggregators like the Central Analysis Bureau (CAB). CAB accesses safety and performance-related data from the US Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) agency. The FMCSA receives and stores public motor carrier safety data from approximately 3.5 million roadside inspections of trucks and investigations from over 100,000 crash reports each year.
- One carrier used this data to develop a more sophisticated predictive model for better understanding their trucker accounts as they related to risk selection and pricing. This safety data was further supplemented with traffic density, litigation, crash and usage data to determine how and where the customer's vehicles were being driven, and how the account's risk needed to be assessed and priced.
- A multi-national insurer was looking to better understand its specific distribution channel. In effect, it was attempting to better understand the "make-up" of their agency force. This effort involved the integration of data from several data sources: its agency management system, its agency licensing system, and Dun & Bradstreet. Use of this data allowed the carrier to obtain a better understanding of their agents. This data provided a broader picture of an agent's overall portfolio size by line of business, the names of the agency's principal(s), number of producers, the number of insurers the agency represented, etc.
- Another carrier, State Farm, received mileage information from insured vehicles that were taken from a data aggregator who was getting mileage data from car dealerships. In one instance, an insured received notice from State Farm that his low mileage discount was being terminated stating that "the insured had exceeded the 5,000-mile limit for the low mileage discount". The insured later learned that it was commonplace for car dealers to sell vehicle information, including odometer reading counts to insurers or their proxies. In this particular case, the data being used by State Farm was LexisNexis' Vehicle History service. ***(15)***

Data Privacy and Security Regulation

Regulations concerning data privacy and security have been increasing from a governmental standpoint. A key driver of this focus has been the numerous cyber security attacks that have affected large and small companies – and have led to massive breaches of personal data. Many of these newer regulations are geared toward strengthening consumer privacy protection. This has become a worldwide phenomenon. The EU passed the General Data Protection Regulation (GDPR), while many individual states in the US have adopted their own privacy protection laws.

Basel II and Solvency II directives in the EU require organizations to have more detailed and sophisticated data management processes in place. These types of requirements are almost certain to be initiated in the future for financial institutions and insurers in the US. And with more to come. A number of enacted state laws have given consumers the right to restrict the use of their personal data.

Consumer protection of data and compliance with these new and pending regulations by insurers can be seen as an inhibitor to carriers looking to capture certain customer information in addition to foregoing needed data investments.

However, there are technology options to address these data privacy concerns. Advancements have been made in data governance and security controls that can enable the use of more data while maintaining the proper compliance related to sensitive data.

Data Monetization

It should be noted that there are carriers using data to ***generate revenue*** for the organization. This opportunity is referred to as *direct data monetization.* Direct data monetization opportunities can be in the form of:

- Selling data directly to another organization
- Selling data through brokers or third-party end users
- Offering/selling data via a subscription service
- Bartering or trading data with another company

Although there are no formal counts on the number of organizations that buy and sell data, it is estimated that there could be thousands of organizations involved in these practices. McKinsey indicates that Telematics and UBI data alone will represent a $750 billion value pool by 2030. ***(16)*** It is suggested that as insurance companies begin to become more sophisticated in managing and controlling their data, this concept of direct data monetization can and will become popular as insurers do possess significant volumes of data.

Important Steps to Take Now

What steps can insurance companies take to become customer-centric and provide a “valuable customer experience”? Many carriers realize that they can make more actionable insights and predictions if they have reliable customer data readily available. The key is to begin a proactive approach at digital modernization. This includes:

1. Obtain senior management commitment to obtain a more personal, 360-degree view of the customer.
2. Make customer data a corporate asset while managing it like other valuable corporate assets.

3. Develop the needed business case on how the complete view of the customer can benefit the company.
4. Undertake a company “readiness assessment” for data acquisition, ownership and usage.
5. Put into place a formal data governance steering committee made up of business and IT executives and a workable program.
6. Develop an enterprise data strategy, including people, processes, technologies and organizational issues.
7. Identify and connect pertinent customer data from internal and external sources. The key is to connect to a few data sources at first and then do a phased approach for expansion of data sources. Start with available internal customer data.
8. Clean the data. View and promote data quality as critical to the organization. This is critical! The data quality process is to be an on-going program as captured data can become obsolete quickly and needs to be “refreshed” continually. For example, Informatica states that 30% of a marketing database will be out of date within a year.
9. Create a master customer record to be used to build a trusted customer profile -- one that is centralized and used as the “one version of the truth” for customer data for the enterprise.
10. Connect other related data by identifying and connecting people, places and things that matter to the business. Consolidate redundant customer data silos and implement tight controls and synchronization processes.
11. Enrich the data by understanding what data sources will enhance the customer experience and will add more value to the existing data (i.e., Dunn & Bradstreet business data, social media data, etc.). Identify potential partners for exchanging/obtaining external data that can add value to better understanding your customer.
12. Provide the enterprise with a uniform view of the customer.
13. Remember, customer data enhancement is a journey not a project. It is a continual process.

Powering the Digital Transformation in Insurance

Insurance must embrace and advance digital transformation. In just the last 10 years alone, the insurance industry has witnessed an explosion of technological advances that have directly impacted the entire value chain – from policy administration to claims management to customer service.

During this time, it has also become clear that if insurers wish to take advantage of these newer technologies to gain a better understanding of their customers, the one key ingredient continues to be elusive.

That key ingredient is data.

And there are a growing number of examples of change in this arena. Take USAA as a case in point. USAA is a carrier and financial institution based in San Antonio, TX, that provides insurance, banking, investments and retirement products to more than 13 million members. The company's insureds are comprised of military personnel (both present and past).

USAA promotes a strategy of "business for life" and strives to have a clear understanding of their customers' and members' needs and wants. USAA's success is the result of several factors including the data they capture, the integration of that data into its business systems, and the use of state-of-the-art analytics and applications programs. All of this has helped the company gain tremendous business insight and experience. In turn, it has helped it transform from a reactive to a more proactive stance, with the ability to anticipate a customer's life changing event, such as marriage or birth of a child.

Data continues to be the fuel that powers the technology for digital transformation. Capturing it, managing it and taking full advantage of this important asset requires great skill and expertise. But the benefits are immense. Data has become the foundation for the customer centric evolution (and revolution) -- and the driver for a carrier's competitive edge.

Could the next insurance trend – ***that of data transformation*** – be right around the corner? We think so. And the opportunities are endless.

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